External Shocks and Indonesian Macroeconomic Policy

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ABSTRACT

This thesis examines the impact of various external shocks to emerging economy, i.e. Indonesia. An interesting fact is that even though the Global Financial Crisis (GFC) effects were global, the East Asian economies suffered more during the Asian Financial Crisis (AFC). Various external shocks from the past decades were idiosyncratic and not part of any repetitive pattern, especially to the Indonesian economy which experienced extreme booms and busts economic cycle. In the aftermath of the AFC, the Indonesia economy slumped, the worst impacted nation in Asia. However in contrast, in the aftermath of the GFC, Indonesia’s economic performance was the third best among the G20 nations in the world. Hence, analyzing various type of booms and crises, various domestic fundamental conditions prior to each crisis and various macroeconomic policies taken by the authority become crucial in enhancing thorough understanding. Moreover, the thesis will construct a baseline dynamic computable general equilibrium model of Indonesia economy. This model will also be used to simulate appropriate macroeconomic policies considering prospective future external shocks.